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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 000424

SIPDIS

DEPT FOR EUR/RUS, FOR EEB/ESC/IEC GALLOGLY AND WRIGHT
EUR/CARC, SCA (GALLAGHER, SUMAR)
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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)
SUBJECT: EXXONMOBIL DESCRIBES CONTINUED IMPASSE ON SAKHALIN
1 BUDGET, RENEWED HOPE GOR WILL APPROVE SOON

REF: MOSCOW 266

Classified By: DCM Eric S. Rubin for Reasons 1.4 (b/d)

SUMMARY

11. (C) Zeljko Runje, ExxonMobil Russia VP in charge of Sakhalin 1, told us on February 18 that the company has begun layoffs at the Sakhalin 1 project due to the absence of an approved budget for new field development (reftel). He stated the company had no role in recent press stories reporting this news. Nonetheless, he said Deputy Energy Minister Stanislav Svetlitsky is asserting ExxonMobil is responsible for the press coverage and is insisting the company accept all blame for project delays. Runje said ExxonMobil is applying pressure on the GOR through all possible channels and is hopeful that Svetlitsky, who ExxonMobil views as the main roadblock to budget approval, will soon be forced to allow the project to move forward. End summary.

NEWS OF SAKHALIN 1 LAYOFFS HITS THE PRESS;
ENERGY MINISTRY HITS THE ROOF

12. (C) Runje told us on February 18 that the ExxonMobil-led Sakhalin 1 project recently laid off approximately 350 employees as the company initiated what it calls an "orderly shutdown" of activities related to the development of future phases of the project. The shutdown is due to a lack of needed GOR approvals of budgets and work plans, which ExxonMobil blames on Svetlitsky (reftel). Runje added that the company will likely soon lay off another 1150 to 1650 employees. He said that when news of the layoffs hit the press recently, ExxonMobil received an angry call from Svetlitsky, who wrongly asserted the company was the source for the press reports. Runje told us that, on the contrary, ExxonMobil had no interest in publicizing the project's problems with the GOR.

13. (C) Following the call from Svetlitsky's office on the night of February 13, Runje said he coordinated with the highest levels of ExxonMobil's leadership in the U.S. to draft a joint press release, to be issued with the Ministry of Energy, to try to quiet further press inquiries. According to Runje, Svetlitsky's reply to the offer of a joint press release was hostile -- "the only statement we'll

agree to is you admitting that this is all your fault." He said the Ministry then drafted a highly antagonistic press release of its own, a milder, but still one-sided version of which it later issued by itself. Runje said ExxonMobil, for its part, issued a press release that only noted the lack of a budget and that said the consortium is working to resolve the issue. Runje shared with us an internal draft of a lengthy and detailed letter to Svetlitsky that ExxonMobil had prepared (but not yet sent) refuting, point-by-point, the Ministry of Energy press release on the matter.

14. (C) Runje told us ExxonMobil is still puzzled by Svetlitsky's unwillingness to sign off on the budget. He said the development of the Odoptu field (the phase of Sakhalin 1 on which the consortium has now stopped work) is rated internally by ExxonMobil as the best-executed projects in the company's global portfolio. Runje added that the consortium's other partners and the Sakhalin government are also frustrated. He said Rosneft CEO Sergei Bogdanchikov had written a letter to Svetlitsky requesting that the budget be approved and that project's Japanese partners had raised the issue with their government. (N.B. The Japanese Ambassador raised the issue last week with Energy Minister Shmatko. Japanese diplomats told us Shmatko's reply was that the dispute was "normal" and that the GOR had no ulterior motives.)

SYMPATHETIC EARS IN THE GOR

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15. (C) Runje told us ExxonMobil had some hope that its many appeals to the GOR, through all available channels, may soon result in action. He said Russian Special Representative of the President for International Energy Cooperation Igor Yusufov, hearing of ExxonMobil's troubles, met with Runje and a colleague on Monday, February 16, and later raised the issue with Energy Minister Shmatko.

16. (C) He said Yusufov was sympathetic and praised the management and execution of Sakhalin 1. According to Runje, Yusufov, who is a former Energy Minister himself, meets weekly with President Medvedev and is writing the briefing paper for his meeting with President Obama. Runje said he was also hopeful the matter would be brought to the attention of President Medvedev through other channels, as ExxonMobil was separately asked by aides to Presidential Economic Advisor Arkady Dvorkovich to provide a summary of its communications with the Ministry of Energy on the Sakhalin 1 budget.

COMMENT

17. (C) Whether or not ExxonMobil was involved in the press leak, the timing, days before the high-profile opening of the Sakhalin 2 LNG plant, ensured the report attracted considerable attention and maximized the Energy Ministry's considerable discomfiture. Certainly, given current economic conditions, Russia does not need avoidable layoffs at a showcase project run by foreign investors. However, if the Energy Ministry does not approve the Sakhalin 1 budget and work plans soon, there will be additional layoffs. In the medium-term, the GOR could find itself in arbitration -- something ExxonMobil has used in other cases, and a possibility Runje floated. Such an event would further undermine investor confidence in Russia's energy sector and could discourage future investment. In light of the seriousness of the situation, the Ambassador has requested a meeting with Shmatko.
BEYRLE